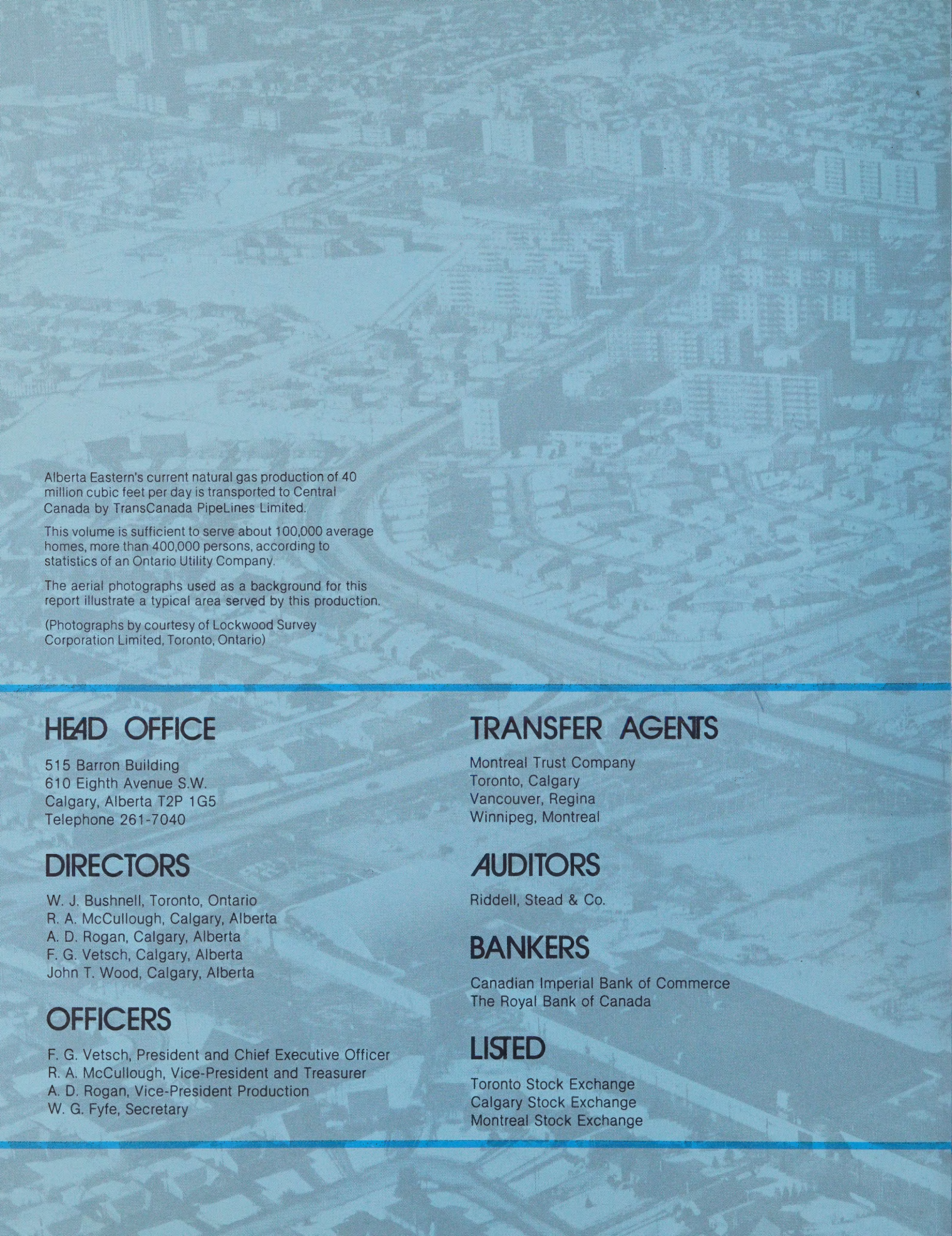


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**AEG**

Alberta Eastern Gas Limited | ANNUAL REPORT 1974





Alberta Eastern's current natural gas production of 40 million cubic feet per day is transported to Central Canada by TransCanada PipeLines Limited.

This volume is sufficient to serve about 100,000 average homes, more than 400,000 persons, according to statistics of an Ontario Utility Company.

The aerial photographs used as a background for this report illustrate a typical area served by this production.

(Photographs by courtesy of Lockwood Survey Corporation Limited, Toronto, Ontario)

## HEAD OFFICE

515 Barron Building  
610 Eighth Avenue S.W.  
Calgary, Alberta T2P 1G5  
Telephone 261-7040

## DIRECTORS

W. J. Bushnell, Toronto, Ontario  
R. A. McCullough, Calgary, Alberta  
A. D. Rogan, Calgary, Alberta  
F. G. Vetsch, Calgary, Alberta  
John T. Wood, Calgary, Alberta

## OFFICERS

F. G. Vetsch, President and Chief Executive Officer  
R. A. McCullough, Vice-President and Treasurer  
A. D. Rogan, Vice-President Production  
W. G. Fyfe, Secretary

## TRANSFER AGENTS

Montreal Trust Company  
Toronto, Calgary  
Vancouver, Regina  
Winnipeg, Montreal

## AUDITORS

Riddell, Stead & Co.

## BANKERS

Canadian Imperial Bank of Commerce  
The Royal Bank of Canada

## LISTED

Toronto Stock Exchange  
Calgary Stock Exchange  
Montreal Stock Exchange



# Alberta Eastern Gas Limited

## ANNUAL REPORT TO JUNE 30, 1974



### HIGHLIGHTS

1974      1973      1972

### PRODUCTION

GAS	- Billions cubic feet	13.39	10.98	5.94
	- Millions cubic feet per day	36.68	30.07	16.30
OIL	- Barrels	10,697	9,894	1,530
	- Barrels per day	29.3	27.1	4.2

### ACREAGE (000 acres)

GROSS	1,055	1,084	885
NET	532	519	477

### WELLS DRILLED (cumulative)

GROSS	519	409	347
NET	427	360	307

### FINANCIAL \$(000)

SALES	2,723	1,819	859
CASH FLOW	2,268	1,247	263
EARNINGS before deferred income tax	1,879	984	104
EARNINGS after deferred income tax	1,188	665	62

### PER SHARE (cents)

CASH FLOW	46	28	7
NET EARNINGS after deferred tax	24	15	2



## TO THE SHAREHOLDERS:

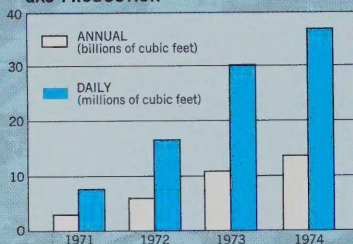
I am pleased to present the Directors' report for the fiscal year ending June 30, 1974. The results for the past year were very satisfactory and the outlook for the near future is most promising. The industry is concerned, however, for the lack to date of a settlement of Federal and Provincial differences which would lead to equitable sharing of oil and gas proceeds between the industry and the governments. This continued conflict is causing reduced exploratory activity in Canada at a time when oil and gas shortages can be forecast for the near future. Recent events suggest that these political problems will be resolved in ways which will restore reasonable conditions in which the industry can operate and progress. Accordingly, there are a number of reasons to be optimistic about the future of your Company, the most important of which are discussed below.

### FINANCIAL RESULTS

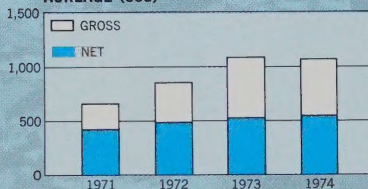
Gas and oil sales revenue after royalty increased by 50% over 1973, from \$1,819,000 to \$2,723,000. Cash flow from operations was up 82% from \$1,247,000 to \$2,268,000.

Net earnings after provision for deferred income tax increased from \$665,000 to \$1,188,000, an increase of 78%.

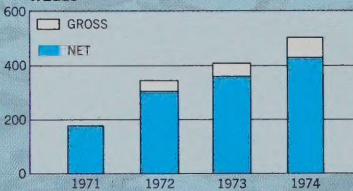
#### GAS PRODUCTION



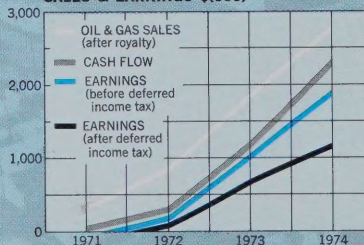
#### ACREAGE (000)



#### WELLS



#### SALES & EARNINGS \$(000)





These improvements result from substantial production gains and modest gas price increases.

The working capital level was \$2,254,000 at the fiscal year end.

#### **GAS CONTRACT NEGOTIATIONS**

On March 4, 1974, the Company completed negotiations with TransCanada PipeLines under which the price of 40% of the Company's gas sales was redetermined effective November 1, 1974. The results of this redetermination provided a price of 60¢ per Mcf for the 40% redetermined with the remaining 60% at 27¢ per Mcf until November 1, 1975, at which time the price would be redetermined for the total contract. The price increase for the 40% was averaged over the total gas stream under the contract, resulting in a price of 40.2¢ per Mcf for all of our gas stream.

Recently, further negotiations were carried out in which the Company agreed to expand its 1974 development program to improve producing rates in early 1975, and agreement was reached with TransCanada PipeLines to increase the gas price effective November 1, 1974, in a step-wise fashion related to expenditure level from 40.2¢/Mcf to a maximum of 60¢/Mcf for all gas delivered under the

contract if the Company expands its 1974 development program from a planned expenditure of \$3,000,000 to over \$6,000,000 by January 31, 1975. Expenditures between \$3,000,000 and \$6,000,000 result in a prorata price increase between 40.2¢ and 60¢/Mcf. This program is proceeding and as a result it is expected that the gas price by November 1, 1974, for the contract year ending October 31, 1975, will substantially exceed the average of 40.2¢/Mcf. The price as of November 1, 1975 will be redetermined. Capital funding for this expanded program will be available from cash flow and working capital.

#### **PRODUCTION**

As a result of the gas contract negotiations outlined above, the Company is undertaking an expanded development program which is expected to be completed in early 1975. The results of this program should increase producing rates in the new fiscal year by at least 20 percent over last year. These increased producing rates, coupled with the price increase effective November 1, 1974, will develop a substantial increase in sales and cash flow in the new fiscal year to levels which for the first time in the Company's history will be sufficient to sup-

port its future development and exploratory programs.

By late 1974, the Company will have installed major facilities in the northern area of the Tilley Milk River Gas Unit and in the Tide Lake Project. Development of the Lake Newell property is being commenced this year and will be connected to the existing Tilley Milk River Gas Unit.

The centre map, pages 6 & 7, details the Company's shallow gas development and land holdings in South-eastern Alberta. Drilling operations by the Province of Alberta on the 1,000 square mile Suffield Block are shown as well. 77 wells were drilled in this program, all of which were successfully completed as single zone or multiple zone gas wells. These results, combined with the Company's operations, illustrate the broad continuity of shallow gas zones in the area.

#### **SASKATCHEWAN PROPERTIES**

In early 1974, the Company was offered a modest contract of 5 Mmcf per day by Saskatchewan Power Corporation. This offer was declined because, in the opinion of management, it did not recognize value of natural gas in the market place. Other gas purchase offers are now under



consideration for this area. The Company's gas lands in Saskatchewan consist of approximately 300,000 gross acres, or 200,000 net acres, containing an estimated proved net gas reserve of about 400 Bcf. Development of this area should have a substantial impact on the Company's future development activity and cash flow.

#### EXPLORATION

Exploratory activity was increased sharply over the past year compared to previous years. Various areas of interest are discussed below and are highlighted on the map on page 5.

**Foothills:** The Foothills project in which the Company holds varying interests from 3% to 15% is nearing completion of its initial exploratory phase in which \$10,000,000 gross was expended over the past two years, \$750,000 being the Company's share. In total six wells were drilled with a seventh, a deep test, currently drilling ahead. Numerous gas shows were encountered in the program, several of which are under evaluation. Well BP et al Bullmoose d-77-E is drilling ahead below 7,000' and this well is being drilled at no cost to the Company.

**Ensign:** The Company and a partner acquired over 20,000 acres of potential gas lands in the Ensign area, in

Townships 17-25 and 18-25-W4M. A drilling program is in progress.

**Judy Creek:** The Company developed an oil play in the Judy Creek West producing area and drilled one dry hole in July, 1974. The Company's working interest in 2,240 acres is 30% to 37½% and further drilling is expected.

**Embarras Creek:** Alberta Eastern participated in the drilling of Mobil InterCity Embarras 10-34-49-21, a deep test to the Beaverhill Lake zone at 15,700 feet. The well encountered a number of gas shows and is currently being evaluated with production casing installed.

**Foreign:** The Company is continuing to consider foreign exploratory participation and at this writing has acquired a 50% interest in about 18,000 acres in Montana and 5% interest in 100,000 acres in the Marshwood region of Southern England.

#### GENERAL

In January, 1974, Mr. R. G. Edwards joined the Company as Exploration Manager. His abilities add a new dimension to the management group which will be evident as our exploratory activities are expanded.

The Directors wish to acknowledge

the exceptional loyalty and support of management and staff over the past year. These efforts account for the success which we have enjoyed in the past and which we look forward to in the future.

On Behalf of the Board of Directors,







F. G. VETSCH  
President and Chief Executive Officer

Calgary  
September 27, 1974



# ALBERTA EASTERN GAS LIMITED

## LEGEND

-  Oil Fields
-  Gas Fields
-  Principal Gas Pipelines
-  Company Interest Acreage

0 50 100  
Scale in Miles

ALBERTA

SASK.

  
**GRIZZLY AREA**  
(See detail map page 8)

**NOSE CREEK AREA**

Grande Prairie

JUDY CREEK

REDWATER

EDMONTON  
LEDUC

PEMBINA

EMBARRAS CREEK

  
**BRAZEAU AREA**

BRITISH COLUMBIA

**EAST DRUMHELLER AREA**

MATZAWIN

CALGARY

TURNER VALLEY

**HIGHWOOD AREA**

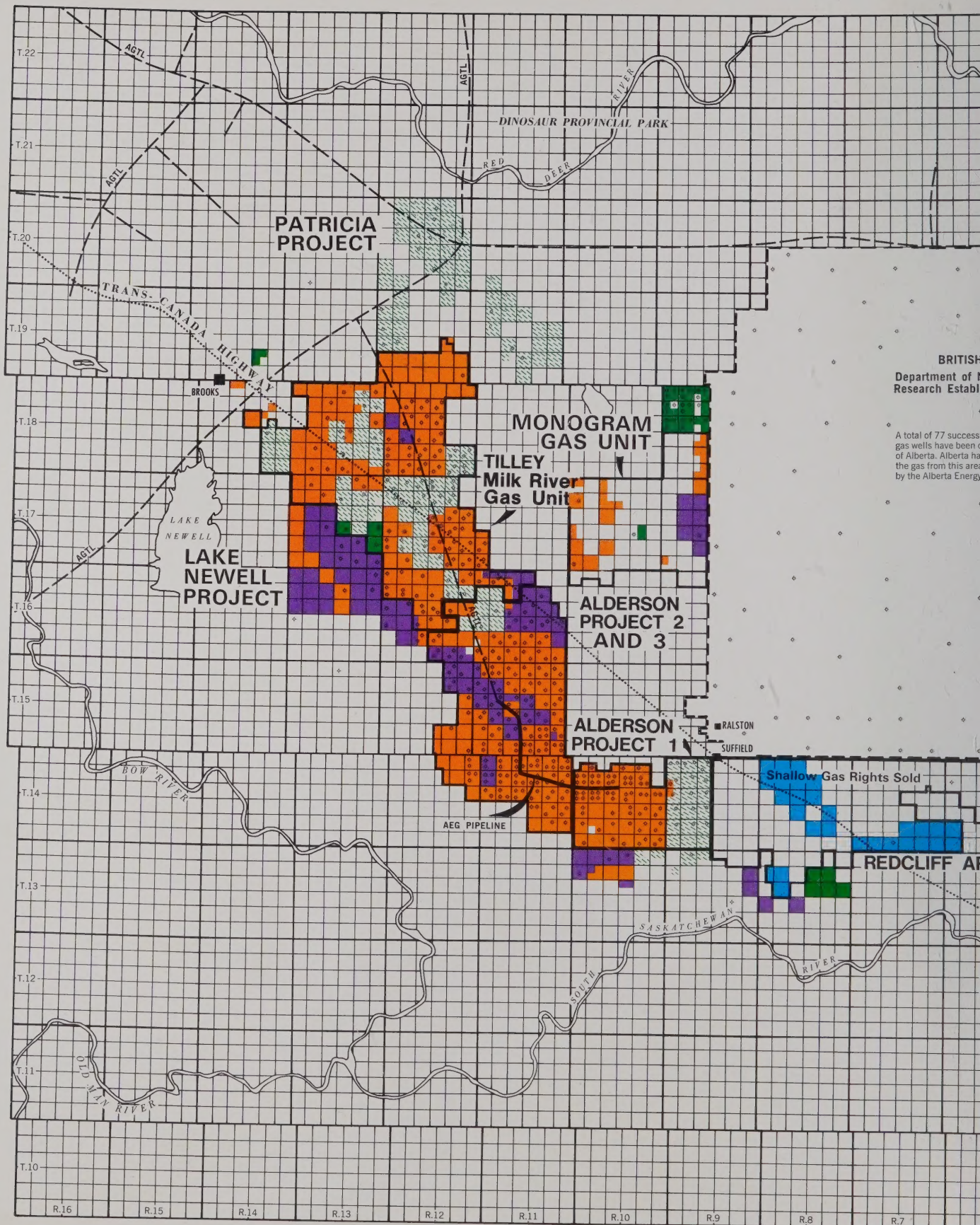
  
**ENSIGN**

  
**BRITISH BLOCK**  
(See detail map pages 6 & 7.)

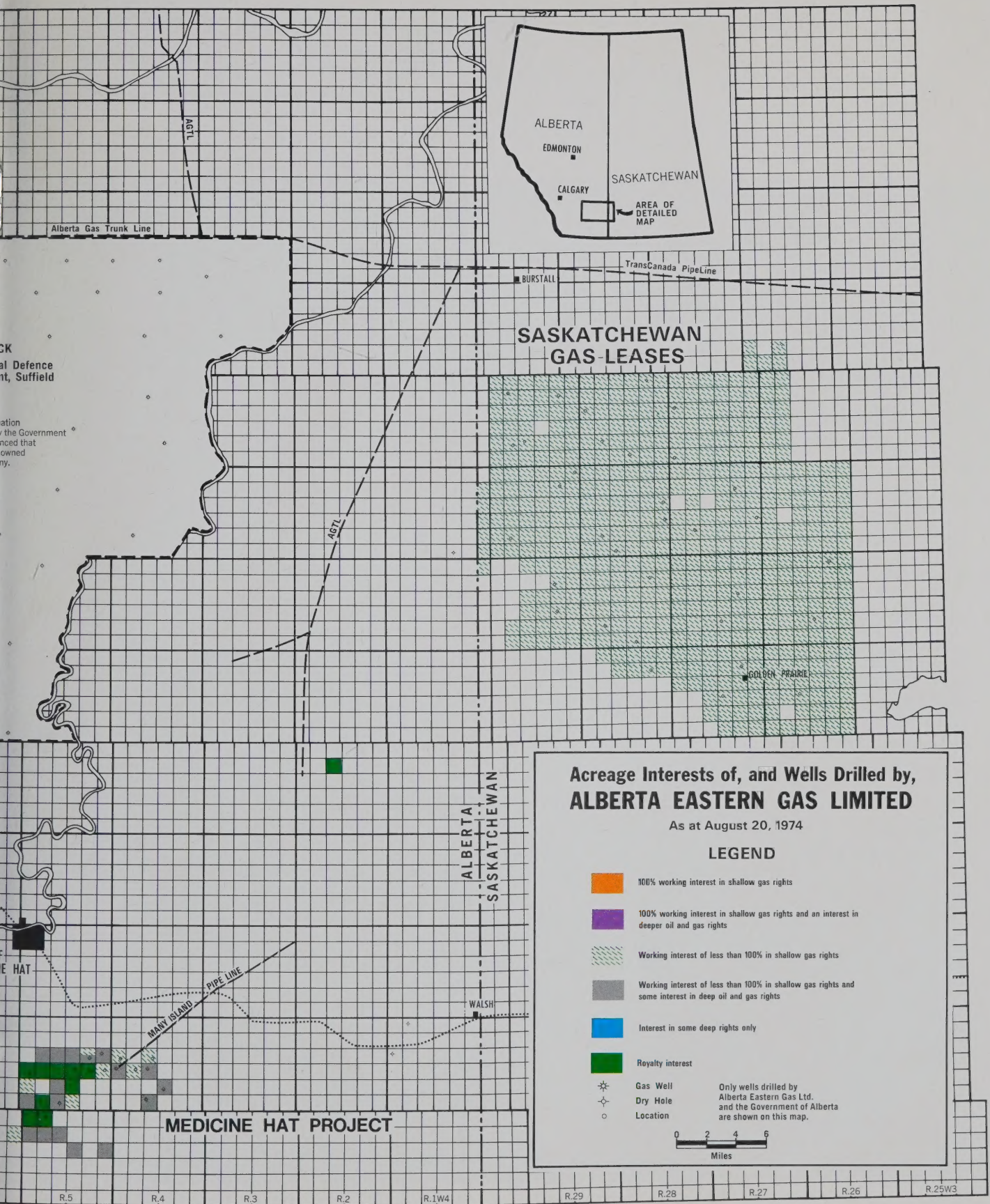
Pincher Creek

Swift Current

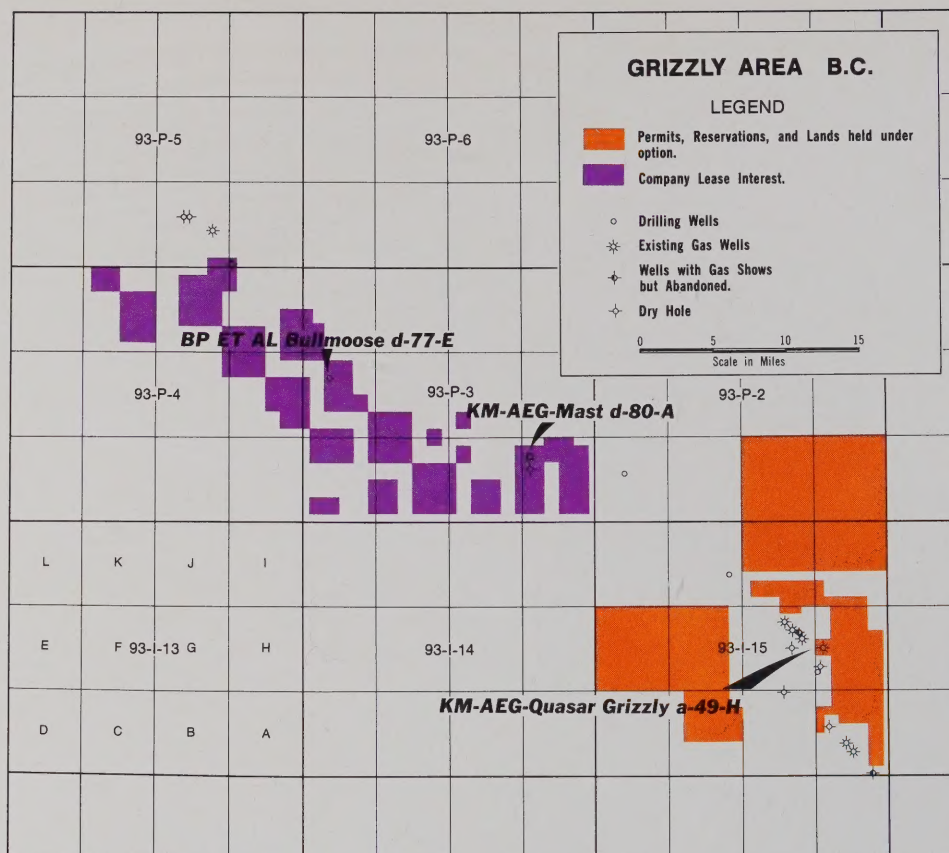












## Auditors' Report

To the Shareholders  
Alberta Eastern Gas Limited

We have examined the balance sheet of Alberta Eastern Gas Limited as at June 30, 1974 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at June 30, 1974 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD & CO.  
Chartered Accountants

Calgary, Alberta  
August 1, 1974





# Alberta Eastern Gas Limited

## Statement of Earnings

for the year ended June 30, 1974

	1974	1973
<b>REVENUE</b>		
Sale of gas and oil production, net of royalty \$470,223 (1973 - \$294,967)	\$2,722,794	\$1,818,863
Interest	253,753	119,805
Other	129,469	16,356
	3,106,016	1,955,024
<b>EXPENSES</b>		
Production	614,588	399,482
General and administrative	219,006	185,707
Interest	—	103,833
Depletion and depreciation	372,307	278,631
Unproductive development and exploration	17,305	—
Engineering and consulting	3,959	3,509
	1,227,165	971,162
<b>EARNINGS BEFORE PROVISION FOR INCOME TAXES AND EXTRAORDINARY ITEM</b>	1,878,851	983,862
Deferred income taxes (Note 3)	690,371	318,515
<b>EARNINGS BEFORE EXTRAORDINARY ITEM</b>	1,188,480	665,347
Gain on sale of properties net of applicable deferred taxes of \$1,703,045	—	1,920,455
<b>NET EARNINGS</b>	\$1,188,480	\$2,585,802
<b>EARNINGS PER SHARE</b> (Based on weighted average number of shares outstanding)		
Before extraordinary item	24¢	15¢
Extraordinary item	—	42
Net earnings	24¢	57¢







## Liabilities

	1974	1973
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 919,919	\$ 1,133,473
<b>DEFERRED INCOME TAXES (Note 3)</b>	2,753,419	2,063,048

## Shareholders' Equity

<b>CAPITAL STOCK (Note 2)</b>		
Authorized		
7,500,000 common shares of no par value		
Issued		
4,975,500 (1973 - 4,964,000) shares	10,656,500	10,608,200
<b>RETAINED EARNINGS</b>	3,530,251	2,341,771
	14,186,751	12,949,971

	\$17,860,089	\$16,146,492
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# Alberta Eastern Gas Limited

## Statement of Retained Earnings

for the year ended June 30, 1974

	1974	1973
<b>RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR</b>	\$2,341,771	\$ (180,392)
Net earnings	1,188,480	2,585,802
Share issue expenses	—	(63,639)
<b>RETAINED EARNINGS AT END OF YEAR</b>	<b>\$3,530,251</b>	<b>\$ 2,341,771</b>

## Statement of Changes in Financial Position

for the year ended June 30, 1974

	1974	1973
<b>SOURCE OF WORKING CAPITAL</b>		
Operations		
Earnings for the year before extraordinary item	\$1,188,480	\$ 665,347
Add charges not requiring working capital	1,079,983	581,167
Cash flow from operations	2,268,463	1,246,514
Issue of capital stock	48,300	6,814,561
Disposal of properties	84,000	4,039,000
Other	26,422	24,987
	2,427,185	12,125,062
<b>APPLICATION OF WORKING CAPITAL</b>		
Property, plant and equipment	3,805,964	4,384,731
Bank production loan	—	2,950,000
	3,805,964	7,334,731
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	<b>(1,378,779)</b>	<b>4,790,331</b>
Working capital (deficiency) at beginning of year	3,633,202	(1,157,129)
<b>WORKING CAPITAL AT END OF YEAR</b>	<b>\$2,254,423</b>	<b>\$ 3,633,202</b>





# Alberta Eastern Gas Limited

## Notes to 1974 Financial Statements

### NOTE 1 ACCOUNTING POLICIES

The company follows the full cost method of accounting whereby all costs of exploration for and development of its gas and oil reserves are capitalized by project area. Costs associated with producing areas are amortized using the unit of production method based upon estimated recoverable reserves of gas and oil within each project area as determined by the company and its consulting engineers. If exploration activities within a project area prove unsuccessful, costs accumulated therein are written off to income.

### NOTE 2 CAPITAL STOCK

During the year, the company issued 11,500 common shares for \$48,300 on exercise of employee stock options.

At June 30, 1974, 77,000 common shares were reserved under stock options granted to employees. The options are exercisable in varying amounts at \$4.08 to \$5.85 per share until 1978.

### NOTE 3 INCOME TAXES

The company provides for deferred income taxes to the extent that current income taxes are reduced or eliminated by claiming capital cost allowances and exploration and

development costs in excess of the amounts provided for depreciation and depletion in the financial statements.

### NOTE 4 REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration paid during the year to directors and senior officers totalled \$134,377. No directors' fees were paid.



An aerial photograph of a city, likely Edmonton, Alberta, showing a complex highway interchange with multiple overpasses and ramps. The surrounding urban area is densely packed with residential and commercial buildings. The image is in black and white, with a high-contrast, almost graphic quality.

# AEG

Alberta Eastern Gas Limited · ANNUAL REPORT 1974